

**CALTRANS
CLOSE OUT REVIEW
HOV LANE CONSTRUCTION ON
SOUTHBOUND ROUTE 405 FROM
WATERFORD STREET TO ROUTE 101**

**CALL FOR PROJECTS
P0002200**

**REPORT NO.
07-CAL-G01**

MARCH 2008



Metro

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EXECUTIVE SUMMARY

At the request of the Project Manager, Brian Lin, a closeout review was completed by the Los Angeles County Metropolitan Transportation Authority (Metro) Management Audit Services (Management Audit) for the Transportation Improvement Program (TIP) call for project Memorandum of Understanding (MOU) P0002200. This MOU is with the State of California, Department of Transportation (Caltrans) to construct a High Occupancy Vehicle (HOV) Lane on southbound Route 405 from Waterford Street to Route 101. The estimated project cost is \$20,334,298. The Metro grant is \$20,334,298 or 100 percent of Prop C 25 percent. Metro withheld \$1,444,000 of the \$20,334,298 grant to contract out construction engineering support consulting services (this cost is not included in this review). Of the remaining \$18,890,298 (\$20,334,298-\$1,444,000) \$18,115,298 is for Construction Capital Cost and \$775,000 is for Construction Inspectors.

Of the total project cost of \$20,927,917, we disallowed a net amount of \$782,620 as follow:

- Cost incurred after lapsing date - \$360,748
- Difference between billed and actual overhead rate - (\$17,312)
- Cost incurred not within the scope of work per contract - \$110,656
- Contract Change Order not authorized by Metro Board - \$328,528

This results in allowable project cost of \$20,145,297 (\$20,927,917-\$782,620) and Metro's share of Construction Capital Cost is \$16,611,710 (\$18,548,135 X 89.56 percent), and \$775,000 (the maximum amount allowed per contract) for Construction Inspectors.

Metro reimbursed Caltrans \$17,220,003 for Construction Capital and \$823,711 for Construction Inspectors of the allowable project cost of \$18,548,135 and \$1,595,924 respectively and no retention was withheld. Caltrans was overpaid \$657,004 (\$608,293 (\$17,220,003-\$16,611,710) + \$48,711(\$823,711-\$775,000)). Unused funds of \$1,503,588 (\$18,890,298-\$17,386,710) remain on the MOU.

We recommend \$17,386,710 (\$16,611,710 + \$775,000) as the final MOU total programmed cost.

INTRODUCTION

Background

The MOU is between Caltrans and Metro. The objective of the project is to construct an HOV Lane on southbound Route 405 from Waterford Street to Route 101. The grant commenced on January 1, 1999 and the lapsing date was June 30, 2002.

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Objectives

The audit objectives were to:

- Determine the allowability, allocability and reasonableness of the incurred cost.
- Determine whether costs incurred and billed were allowable under relevant cost standards and in compliance with the specific and general terms of the grant and project management guidelines.
- Determine whether costs incurred were properly and accurately charged to the grant, were reasonable in amount, and were supported by documented evidence.
- Determine whether costs were properly recorded for reimbursement purposes and that reimbursements were received by Caltrans and that Metro's books properly reflect these transactions.
- Determine whether cost incurred were by the lapsing date and invoiced within 60 days after the lapsing date.

Scope

We determined the amount invoiced by Caltrans for costs incurred in the performance of the grant. The invoices were submitted between September 27, 1999 and September 1, 2006. We also determined the amounts paid to Caltrans.

We conducted this attestation review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives. We used the cost principles contained in the Federal Acquisition Regulation (FAR) Subparts 30 and 31, and the grant provisions to evaluate and analyze the incurred cost.

The cost claimed is the responsibility of Caltrans. Our responsibility is to express a conclusion based on the audit.

The review report is intended solely for the use of management and should not be used for any other purpose without first consulting Management Audit Services.

INTRODUCTION

Methodology

We selected invoices submitted by Caltrans and traced various costs included on the invoices to supporting documentation such as vendor's invoices. We reviewed the costs for allowability in accordance with applicable cost standards and compliance with the terms and conditions of the grant. We also reviewed Metro's accounting and grant records to determine if the amounts claimed for reimbursement, as represented by the invoices submitted by Caltrans, were actually paid.

RESULTS

Conclusion

Based on our review, we questioned a total of \$782,620 (See Appendix A for details of questioned cost) of the total project cost of \$20,927,917. This results in allowable project cost of \$20,145,297 (\$20,927,917-\$782,620) and our Construction Capital Share is \$16,611,710 (\$18,548,135 X 89.56 percent) and \$775,000 (the maximum amount allowed per grant) for Construction Inspectors.

Caltrans was reimbursed \$17,220,003 for Construction Capital and \$823,711 for Construction Inspectors of the allowable project cost of \$18,548,135 and \$1,597,162 respectively and no retention was withheld. Metro overpaid the grant a total of \$657,004 (\$608,293 (\$17,220,003-\$16,611,710) + \$48,711(\$823,711-\$775,000)).

Unused funds in the amount of \$1,503,588 remain on the grant.

Recommendation

We recommend \$17,386,710 as the final cost of this grant. We also recommend that Countrywide Planning staff recover the over billed cost of \$657,004 and use the appropriate procedures in the grant in regards to unused funds.

RESULTS

Other Matters

During our review, we also found that our 100 percent participation for this project was reduced to 89.59 percent. The reduced rate is the result of increased STIP funds reducing Metro's participation. This change in participation to the project was mutually agreed by

RESULTS

both Metro and Caltrans. Part I, Section 10 of the MOU states that "No material changes to the Programmed Budget or the Scope of Work shall be funded or allowed without prior approval by the Commission, MTA, and Grantee and written amendment to this MOU, approved and signed by the MTA Chief Executive Officer (CEO) or his designee and Grantee".

Recommendation

We strongly recommend that any changes in the Programmed Budget should be covered by a written amendment to the MOU, approved and signed by the Chief Executive Officer or his designee and Grantee.

Management Response

Metro Project Manager concurred with audit recommendations; and Caltrans Project Manager through the Division of Accounting disagreed in some respects with the results of our review.

- (1) Audit Finding: \$117,202 Costs incurred after lapsing date of 6/30/02.
- (2) Audit Finding: \$4,943 Consulting Services for Scheduling & Claims incurred after the lapsing date of 6/30/02.

Caltrans' Response

"The expenses are legitimate and appropriate. Project expenditure is driven by the project schedule that often varies and is very much construction dependent. Caltrans provided continuous service to successfully complete the project rather than terminate the service after the estimated time line, which would have jeopardized the project completion. There would be only adverse consequence if Caltrans had not continued to administer the contract because the failure to amend the agreement by both parties. The actual result was beneficial for the project, the commuting public and both agencies in controlling delay, claim cost and the timely delivery of the project".

Auditor's Rejoinder

Part II, Section 8.1 of the MOU states that "Grantee must demonstrate timely use of Funds by expending the Funds granted under this MOU for allowable costs within three (3) years from July 1 of the last Fiscal Year in which the Funds are programmed". The original lapsing date for this MOU was June 30, 2001 and was later extended to June 30, 2002 through an amendment signed by the CEO. All costs in questioned were incurred after June 30, 2002.

- (3) Audit Finding: \$238,603 invoiced 60 days after the lapsing date of 6/30/02.

RESULTS

Caltrans' Response

"Caltrans disagrees with the audit finding. All costs were incurred prior to the lapsing date of the MOU except for the contractor settlement claims; therefore, all costs are deemed valid...The final bill for the other costs could not be determined until all costs were recorded and the Final Project Cost Summary was prepared. Caltrans' final accounting process must occur prior to final billing".

Auditor's Rejoinder

Part II, Section 8.1 of the MOU states that "Work not invoiced within 60 days after the lapsing date is not eligible for reimbursement". This invoice was submitted four (4) years after the lapsing date of 6/30/02.

(4) Audit Finding: \$1,238 supporting documents not provided.

Caltrans' Response

"With the discontinuation of car tags, the entry form no longer exists. However, we did provide a TRAMS system generated report that supported the \$1,238 in questioned costs. We have discussed this issue on prior audits and car tag expenditures have been accepted with this form of source documentation".

Auditor's Rejoinder

We will allow and accept this cost based on the TRAMS system generated report as supporting documentation.

(5) Audit Finding: \$110,656 is related to the cost of CHAMP software and training which we found not within the scope of work per MOU.

Caltrans' Response

"The expenses are legitimate and appropriate. The acquisition of the software was needed to comply with Federal Funding requirements. Contractor bought the software and Caltrans construction office approved the Contract Change Order (CCO) for it because the project was chosen by FHWA for testing the contractor compliance with Civil Rights Program. The program was used to collect records of employees work time, compensations, work safety, etc., analyze and report actual cost paid by prime contractor to DBE and non-DBE firms. Caltrans compliance with the FHWA testing requirement was mandated or would risk losing federal funding for highway construction projects. The cost of the software and training are deemed legitimate and eligible project expenditure".

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Auditor's Rejoinder

Part II, Section 3 the MOU specifically defines the use of funds for this grant:

- 3.1 – The Grantee shall utilize the Funds to complete the Project as described in the Scope of Work;
- 3.2 – Attachment C shall constitute the agreed upon Scope of Work between MTA and the Grantee for the Project. The Funds, as granted under this MOU, can only be used towards the completion of this Scope of Work; and
- 3.3 – Grantee shall not use the Funds to substitute for any other funds or projects not specified in this MOU. Nor shall the Funds be used for any expenses or activities above and beyond the approved Scope of Work without an amendment to the MOU approved and signed by the MTA Chief Executive Officer or his designee.

The acquisition of CHAMP software and training is not part of the Scope of Work per MOU and no amendment was executed to change the Scope of Work.

(6) Audit Finding: \$328,528 CCO not properly authorized by Metro Board prior to implementation.

Caltrans' Response

"Caltrans disagree with the audit finding. The expenses are legitimate and appropriate. The MOU's requirement for MTA board approval is for implementing CCO work, not payment for claims. This CCO was to pay the contractor final close out claim. It was identified as cost adjustment to all contractor claims in the contract after construction acceptance. The negotiated settlement between Caltrans and contractor are required to close out the contract. The Caltrans/MTA agreement does not require written authorization of MTA board".

Auditor's Rejoinder

Part II, Section 7.1 of the MOU states that "...CCO greater than or equal to \$200,000 shall not be funded without the authorization of the MTA Board". Caltrans failed to provide any communication or proof that this CCO was authorized by Metro.

A handwritten signature in black ink, appearing to read 'Ruthe Holden', with a stylized, cursive script.

ruthe holden
Wed Mar 26 14:13:05 2008

Ruthe Holden
Chief Auditor
March, 2008

Audit Team: Rey Alimoren
Kathy Knox

APPENDIX A

SUMMARY RESULTS OF REVIEW
HOV LANE CONSTRUCTION ON SB ROUTE 405
FROM WATERFORD STREET TO ROUTE 101
MOU.P0002200, EA 07-1667U3 7 07-1667U4

Description	Total Project Cost	Audited Project Cost	Questioned Cost	Note
<u>EA 07-1667U3</u>				
Labor Cost	\$ 1,138,932	\$ 1,138,932	\$ -	
Overhead	418,629	435,941	(17,312)	1
Other Direct Cost	144,434	139,491	4,943	2
Sub-Total	\$ 1,701,994	\$ 1,714,364	\$ (12,369)	
Less: Cost Questioned due to Lapsing Date		117,202	117,202	2
Total EA 07-1667U3	\$ 1,701,994	\$ 1,597,162	\$ 104,832	
<u>EA 07-1667U4</u>				
Construction Cost	\$ 19,021,500	\$ 18,582,316	\$ 439,184	3
Resident Engineer	22,380	22,380	-	
State Furnished Mats	110,435	110,435	-	
Utility Relocation	15,306	15,306	-	
Miscellaneous Fees	1,558	1,558	-	
Communications	54,743	54,743	-	
Total EA 07-1667U4	\$ 19,225,922	\$ 18,786,738	\$ 439,184	
Less: Cost Questioned due to Lapsing Date		238,603	238,603	4
	\$ 19,225,922	\$ 18,548,135	\$ 677,788	
Total	\$ 20,927,917	\$ 20,145,297	\$ 782,620	

Explanatory Notes:

- Overhead adjustment of (\$17,312) is due to the difference between billed overhead cost and the calculated overhead cost based on submitted overhead assessment rate:

Claimed		Audited		Upward Adjustment
Direct Labor	Overhead Assessment Costs	Direct Labor	Overhead Assessment Cost	
Total	\$ 1,138,932 \$ 418,629	\$ 1,138,932 \$ 435,941	\$ (17,312)	

2. We questioned this cost because it was incurred after the lapsing date of June 30, 2002.
3. Construction capital cost of \$439,184 is questioned due to the following:
 - Acquisition and training cost of CHAMP Software outside the scope of work per contract - \$110,656
 - Contract Change Order cost not approved by Metro Board - \$328,528
4. We questioned this cost because it was invoiced four (4) years after the lapsing date of June 30, 2002.

APPENDIX B

SUMMARY OF GRANT NO. P0002200
PROJECT FUNDING AND EXPENDITURES

Funding Source	Budgeted Funding	Percent	Allowable Cost Expended	Percent	Metro's Share	Unused Funding
Construction Support: Prop C 25%	\$775,000	100%	\$ 1,597,162	100.00%	\$ 775,000	\$ -
Construction Capital: Prop C 25%	18,115,298	100%	18,548,135	89.56%	16,611,710	1,503,588
Total	\$ 18,890,298	100%	\$ 20,145,297	92.04%	\$17,386,710	\$ 1,503,588